PRICE TRANSMISSION MECHANISM ANALYSIS: AN APPLICATION TO SELECTED FOODSTUFFS ON THE MAIN MARKETS OF THE SOUTHERN RWANDA

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Abstract

This study analysed the transmission of the prices of the major foodstuffs on local markets of the Southern Rwanda. It used time series data collected on Huye, Nyanza and Muhanga markets from January 1997 to June 2014. The cointegration analysis has been applied to analyse the data and the Error Correction Mechanism was used to integrate, around the long-run, the short-run fluctuations. The obtained results have confirmed the relationship between the variation of the price of bean, the seasonal calendar and the prices of maize flour and potato on the markets covered by this study. It is revealed that during the first quarter, the price of beans decreased on the three markets while the third quarter influenced the increase of the price of beans only on the market of Muhanga. A positive influence of white maize flour price on that of beans was noticed on Huye and Muhanga markets in the same period. The previous and the current monthly price of potato is likely to influence the increase of the current monthly price of beans respectively on Huye and Nyanza markets. In light of the findings, the following main recommendations emerge. Policy makers and local authorities should consider the price transmission mechanism and the relationship between foodstuffs' prices in the control of prices of major staple food; a study analysing the mutual influence between these main markets by assessing their level of integration for these important staple foods is suggested.

Key Words: Cointegration, Error Correction Model, Stationarity, Price transmission, Staple food prices